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BRIEFS AND COMMENTS

ITALY: Government Crisis

The Communist Party's recent break with Prime Minister Andreotti's government shifted the emphasis in Italian politics back toward confrontation, breaking a long trend that saw the Communists inching steadily toward a fuller and more overt role in the governing process. None of the parties faces an easy choice in the complex negotiating process now under way. 25X1

The Communists feel they must take a tougher line toward Andreotti and his fellow Christian Democrats, yet they will not want to jeopardize their hard-won reputation as a responsible and constructive political force. The Christian Democrats, troubled as always by their own internal factional problems, seem more willing now than in the past couple of years to confront the Communists, but they cannot be sure, however, that they would be net gainers if the Communists went back into full-fledged opposition. The Socialist Party, whose actions were instrumental in starting the process that led to the present crisis, now faces the possibility of early elections in which its future is uncertain. 25X1

Because no party's options are clear--and also because decisions in each case will depend heavily on the actions of others--all the participants are likely to move very cautiously, and it is impossible to predict in any detail how the crisis will develop. 25X1

Certain broad trends, however, can be discerned. It seems likely that relations between the Christian Democrats and Communists will grow more tense in the next few weeks, with increased possibilities for miscalculation by both parties. If this is so, a round of parliamentary elections will be very difficult to avoid. And whether or not elections are held, the central fact in Italian political life is unlikely to change: it is all but impossible to set up a stable government, much less an effective one, unless Italy's two biggest parties can find a way to cooperate. Finally, events of the last year have made the Communists much more reluctant to cooperate without some guarantee of an expanded role in the governing process. 25X1

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EC: Monetary System Dispute

//The EC agriculture ministers may begin to move today toward resolving the dispute that has held up the European Monetary System. The ministers will take up the EC Commission's proposed 1979-80 farm price package, a complex set of measures that attempts to satisfy the different requirements of France, the UK, and West Germany.//

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//Shortly before the scheduled start of the new monetary system on 1 January, France demanded concurrent elimination of monetary compensatory amounts--arrangements that partially offset exchange-rate effects in agricultural trade among EC countries by subsidizing exports of strong currency countries and imports of those with weaker currencies. West Germany would not agree to the French demand without cushioning the impact on West German farmers, and Britain objected to the consumer price increase likely to result. Thus the dispute has engulfed the entire EC agricultural price mechanism.// 25X1

//To satisfy France, the Commission proposes ways to end both existing and future compensatory amounts. West Germany's compensatory amounts for 1979-80 would not be changed, however, and several other features of the proposal would soften its impact on the West Germans. The UK would be exempt because initially it will not be a full member of the new monetary system. In addition, the Commission's proposed freeze on agricultural price supports would benefit British consumers.// 25X1

//The complex farm price talks may now delay the new monetary system until 1 April or later. Bonn, chief proponent of the monetary system, may have the most trouble agreeing to a compromise on agricultural prices.// 25X1

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UGANDA-TANZANIA: Action in Kampala

//There was heavy gunfire in Kampala yesterday, and an electric substation and fuel depot were sabotaged, according to press reports. It is not clear if these actions were carried out by Ugandan exiles, who infiltrated into the capital or by dissidents among the 5,000 Ugandan soldiers who recently moved into the Kampala area. [redacted] 25X1

25X1 [redacted]

[redacted] 25X1

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SPECIAL ANALYSIS

VIETNAM: Economic Effects of the Kampuchean Invasion

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Vietnam is already paying a heavy price for its invasion of Kampuchea--in terms of the diversion of human and material resources from its faltering economic development effort and the reassessment of aid policies by disapproving foreign donors. A prolonged Kampuchean insurgency would seriously strain the Vietnamese economy.

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Direct expenditures in Kampuchea so far have been moderated by the relative ease with which the Vietnamese knifed through the country. The Vietnamese suffered only minor losses of expensive hardware in the assault. Vietnam has been able to draw on its cache of US-made arms and equipment and continues to receive Soviet military supplies. [redacted]

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Indirect costs have been heavy, however. At least 150,000 men of Vietnam's 600,000-man armed forces are engaged in Kampuchea where they must be provided with food, fuel, and equipment over long supply lines. Hanoi has also sent units toward the northern border to defend against any Chinese military forays. The military had been playing a major role in the development of new farmland and the rehabilitation of irrigation and transportation systems. These programs will now suffer, and Vietnam's efforts to eliminate dependence on food imports will be set back. [redacted] 25X1

Military operations have further stretched Vietnam's overextended administrative structure. National leaders, many of whom also hold military rank, have been preoccupied with the war. As a result, decisions important for Vietnam's centrally planned economy have been neglected. At regional and lower administrative levels, the invasion has exacerbated Vietnam's already serious shortage of managers, who are needed to improve both agricultural and

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industrial efficiency. In addition, many industrial and agricultural enterprises have had to allocate labor time to military self-defense training and other mobilization tasks. [redacted] 25X1

The war has forced a shift of key resources--especially rice and fuel--to the Kampuchean front, reducing amounts available in rationed domestic markets and increasing the pressure on imports. Internal commerce has suffered from the mobilization of both military and civilian transport systems to support military operations in Kampuchea and to bolster defenses along the China border. [redacted] 25X1

25X1 The invasion has also destroyed the last vestige of Sino-Vietnamese economic cooperation. [redacted] 25X1

Vietnam will be paying for its foray into Kampuchea for some time. The government will have to maintain its troop strength in Kampuchea near the current level for many months. Kampuchean resistance is likely to be pervasive and tenacious. Logistics will become increasingly difficult. Vietnam will incur further obligations because of the lack of established government institutions and trusted leaders in Kampuchea, and the severe economic and social dislocations that occurred in urban and rural economic patterns. [redacted] 25X1

Foreign reactions so far indicate that the invasion may dash Vietnam's hopes of substantial Western aid and make it even more dependent on the USSR. The Vietnamese probably received assurances that the USSR would meet any additional aid requirements brought about by the invasion of Kampuchea. [redacted] 25X1

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Vietnamese hopes for aid and trade relations with the US, including US participation in Vietnam's quest for offshore oil deposits, have been set back, and Western bankers assert that, as a result of the war, Vietnam has exhausted the possibility of further commercial bank credits. [redacted] 25X1

Potential Long-Term Gains

If conditions in Kampuchea eventually stabilize under a pro-Vietnamese government, both countries could benefit. Security along the border would permit the development of frontier agricultural areas. Kampuchea has the potential to produce a rice surplus of several hundred thousand tons annually, which would help offset Vietnam's chronic 2-million-ton deficit. Vietnam, however, has not had much success in spurring the production of its own farmers in the Mekong Delta rice bowl. [redacted] 25X1

In exchange for rice, Kampuchea could benefit from Vietnamese help in rehabilitating its rubber plantations and manufacturing facilities. Kampuchea's valuable plantations, which once furnished 50,000 tons of rubber for export annually, have never recovered from the forced exodus in the early 1970s of skilled Vietnamese laborers and French managers. Kampuchea could benefit from imports of Vietnamese coal and from improved access to the sea via the Mekong River. [redacted] 25X1

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